REPORT OF THE AUDIT OF THE LEE COUNTY SHERIFF'S SETTLEMENT - 2001 TAXES

August 8, 2002



EDWARD B. HATCHETT, JR. AUDITOR OF PUBLIC ACCOUNTS

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EDWARD B. HATCHETT, JR. AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable L. C. "Bub" Reese, Lee County Judge/Executive
Honorable Harvey Pelfrey, Lee County Sheriff
Members of the Lee County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the Lee County Sheriff's Settlement - 2001 Taxes.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Lee County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr. Auditor of Public Accounts

Enclosure



AUDIT EXAMINATION OF THE LEE COUNTY SHERIFF'S SETTLEMENT - 2001 TAXES

August 8, 2002

Berger & Ross, PLLC

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LEE COUNTY SHERIFF'S SETTLEMENT - 2001 TAXES

August 8, 2002

Berger & Ross, PLLC has completed the audit of the Sheriff's Settlement - 2001 Taxes for Lee County Sheriff as of August 8, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Sheriff collected net taxes of \$1,261,602 for the districts for 2001 taxes. Sheriff distributed taxes of \$1,260,651 to the districts for 2001 Taxes. Taxes of \$545 are due to the districts from the Sheriff and refunds of \$7 are due to the Sheriff from the taxing districts.

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Bob Ross, MBA, CPA, CFE Todd A. Berger, CPA

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Independent Auditor's Report

We have audited the Lee County Sheriff's Settlement - 2001 Taxes as of August 8, 2002. This tax settlement is the responsibility of the Lee County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in <u>Government Auditing Standards</u> issued by the Comptroller General of the United States, and the <u>Audit Guide for Sheriff's Tax Settlements</u> issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Lee County Sheriff's taxes charged, credited, and paid as of August 8, 2002, in conformity with the modified cash basis of accounting.

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In accordance with <u>Government Auditing Standards</u>, we have also issued our report dated August 16, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with <u>Government Auditing Standards</u> and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

Berger & Ross, PLLC

Audit fieldwork completed - August 16, 2002

LEE COUNTY HARVEY PELFREY, SHERIFF SHERIFF'S SETTLEMENT - 2001 TAXES

August 8, 2002

Special

			N.	эрссы				
	Cou	ınty Taxes	Taxi	ng Districts	Sch	nool Taxes	Sta	nte Taxes
Charges								
Real Estate	\$	252,907	\$	163,385	\$	383,842	\$	152,191
Tangible		37,841		15,650		40,956		33,050
Intangible		-		-		-		9,627
Fire Acreage		2,637		-		-		-
Additional Bills		308		200		466		185
Omitted Bills		267		187		485		188
Oil, Limestone, Sand and Gravel		13,503		8,722		20,493		8,125
Total Per Sheriff's Official Receipt	\$	307,463	\$	188,144	\$	446,242	\$	203,366
Other Taxes and Charges								
Bank Shares		18,459		-		-		-
Correcting Erroneous Assessments		71		45		107		42
Penalties & Interest		3,001		1,899		4,471		1,812
Franchise Corporation		79,269		36,644		92,057		
Gross Chargeable to Sheriff	\$	408,263	\$	226,732	\$	542,877	\$	205,220
Gross Chargeage to Sherin	Ψ	100,203	Ψ	220,732	Ψ	3 12,077	Ψ	200,220
Credits								
Exonerations	\$	3,752	\$	2,420	\$	5,684	\$	2,252
Delinquents		10,104		6,440		15,536		6,071
Unpaid Franchise		56		25		67		-
Discounts		4,005		2,193		5,210		2,425
Total Credits	\$	17,917	\$	11,078	\$	26,497	\$	10,748
Net Tax Yield	\$	390,346	\$	215,654	\$	516,380	\$	194,472
Less: Commissions*	_	16,877	*	9,165		20,655	*	8,553
		,		,		,		,
Taxes Due Districts	\$	373,469	\$	206,489	\$	495,725	\$	185,919
Taxes Paid		373,334		206,383		516,039		185,550
Less: Refunds (Current & Prior Year)		99		70		175		69
Add: Commission Refunds From School		_		_		20,655		_
				**				
Due Districts or (Refunds Due Sheriff)								
as of Completion of Fieldwork	\$	36	\$	36	\$	166	\$	300

^{*} and ** See Page 4

The accompanying notes are an integral part of these financial statements.

LEE COUNTY HARVEY PELFREY, SHERIFF SHERIFF'S SETTLEMENT - 2001 TAXES August 8, 2002 (Continued)

*Commissions:	10%	on	\$	10,000
	4.25%	on	\$	790,472
	4%	on	\$	516,380
**Special Taxing Districts:				
Library District			\$	18
Health District				(7)
Extension Service District				17
Soil Conservation District				8
D D			Φ.	2.5
Due Districts or (Refunds Due Sheriff)			\$	36

LEE COUNTY NOTES TO FINANCIAL STATEMENT

August 8, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of August 8, 2002, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

LEE COUNTY NOTES TO FINANCIAL STATEMENT August 8, 2002 (Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 19,2001 through June 8, 2002.

Note 4. Interest Income

The Lee County Sheriff earned \$1,599 as interest income on 2001 taxes. As of August 8, 2002, the Sheriff overpaid \$237 in interest to the school district and owes \$497 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Lee County Sheriff collected \$10,698 of 10% add-on fees allowed by KRS 134.430(3). As of August 8, 2002, the Sheriff owes \$340 in 10% Add-on Fees. This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Lee County Sheriff collected \$520 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Lee County Sheriff's Settlement - 2001 Taxes as of August 8, 2002, and have issued our report thereon dated August 16, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <u>Government Auditing Standards</u> issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lee County Sheriff's Settlement - 2001 Taxes as of August 8, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under <u>Government Auditing Standards</u>.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lee County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards (Continued)

Internal Control Over Financial Reporting (Continued)

period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

Berger & Ross, PLLC

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Audit fieldwork completed - August 16, 2002